

In the Matter of

CC Docket No. 96-45

CC Docket No. 97-21

In this petition, USAC seeks a permanent waiver or, in the alternative, a change in the current rule requiring USAC to file a draft annual audit report with the Commission within 60 days of the close of the period covered by the audit. *See* 47 CFR § 54.717(f). USAC's two years of operating experience with this rule indicates that the 60-day rule

does not allow sufficient time for USAC's independent auditor to prepare a thorough and complete audit report. USAC respectfully submits that a permanent 45-day extension of this deadline (to April 15 of the year following the audit period) will enable its independent auditor to prepare a more comprehensive draft audit report and will not prejudice the Commission or any USAC stakeholder.

ARGUMENT

Section 54.717 of the Commission's rules, 47 CFR § 54.717, governs the annual independent audit of the Administrator of the Universal Service Support Mechanisms. Section 54.717 requires the Commission to exercise considerable oversight of USAC's audit process. Among other things, USAC must submit an audit plan to the Common Carrier Bureau for review and approval, and Bureau staff must review and approve the findings of USAC's independent auditor. *See* 47 CFR § 54.717(a)-(e). The regulations governing audits of the Administrator contain a timetable within which the Commission's oversight must occur. Section 54.717(f) requires USAC's independent auditor to file a draft audit with the Commission within 60 days of the close of the audit period. Because USAC's fiscal year is the calendar year, this annual deadline is March 1. Other subsequent deadlines for review and comment flow from this date. *See* 47 CFR 54.717(g)-(j)

USAC now has experience with completing two annual independent audits pursuant to this regulatory timetable. That experience demonstrates that meeting this requirement is extremely difficult. For the 1998 annual audit, USAC was required to seek an extension of the March 1 deadline on behalf of our independent auditor.

Although USAC's auditor was able to meet the March 1, 2000 deadline for submission of

the draft audit report for 1999, it was only with great difficulty and the report was not complete. The difficulty in meeting this deadline is not caused by a lack of diligence by USAC, its parent corporation, or USAC's independent auditor. USAC closes its books in early February. USAC's parent corporation, the National Exchange Carrier Association, Inc., does not close its books until mid-February. Based on industry standards and the experience of our independent auditor with other clients, it is not unusual for entities to close their books within this time frame. See Declaration of Mark W. Fagan, Arthur Andersen LLP ¶¶ 3-4 (July 25, 2000) ("Fagan Dec.") (attached as exhibit A to this Petition).

This timing provides USAC's independent auditors with just two weeks to complete *six* financial audits (USAC, the Combined and Combining Universal Service Fund, High Cost Fund, Low Income Fund, Rural Health Care Fund, and the Schools and Libraries Fund) and *five* agreed upon procedures reviews (USAC, High Cost Program, Low Income Program, Rural Health Care Program, and Schools and Libraries Program). Although USAC's independent auditor is able to begin some of the work prior to the books being closed, the majority of the work must wait to allow for an evaluation of the entire year as required by auditing standards and FCC rules. See Fagan Dec. ¶ 5.

USAC's Board of Directors has authorized USAC staff to request a permanent waiver (or, alternatively, a change in the rule) to require that the draft audit of the Administrator conducted by the independent auditor be filed with Common Carrier Bureau staff no later than April 15 of the year following the close of the audit period. USAC staff has conferred with our independent auditor and Common Carrier Bureau audit staff. All parties concerned believe that April 15 is a reasonable date that meets the needs of USAC, its independent auditor, and Common Carrier Bureau staff. USAC


proposes that the timetable for comments and responses to be provided after the initial draft audit report is delivered to the Commission set forth in 47 CFR 54.317(g)-(j) remain unchanged.

CONCLUSION

For the reasons set forth above, USAC respectfully requests a permanent waiver or, in the alternative, a change in 47 CFR 54.717(f) to enable USAC's independent auditor to submit a draft annual audit report no later than April 15 of the year following the close of the audit period.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

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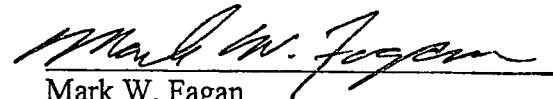
Dated: July 26, 2000

3. AA now has experience with completing two annual independent audits of USAC pursuant to this regulatory timetable. Our experience demonstrates that meeting the March 1 deadline is extremely difficult because USAC does not close its books until early February and the National Exchange Carrier Association ("NECA") until mid-February. As a result, for the 1998 annual audit, USAC had to seek an extension of the deadline from the Commission because we were unable to complete the audit work before March 1, 1999. Although AA was able to meet the March 1, 2000 deadline for submission of the draft audit report for 1999, it was only with great difficulty.

4. The difficulty in meeting the March 1 deadline is not caused by a lack of diligence by USAC, NECA, its parent corporation or AA, but rather by the timing of when the books are closed. Based on industry standards, it is not unusual for entities to close their books within this time frame.

5. This timing provides AA with only two weeks to complete *six* financial audits (USAC, the Combined and Combining Universal Service Fund, High Cost Fund, Low Income Fund, Rural Health Care Fund, and the Schools and Libraries Fund) and *five* agreed upon procedures reviews (USAC, High Cost Program, Low Income Program, Rural Health Care Program, and Schools and Libraries Program). Although AA is able to begin some of the audit work prior to the books being closed, we cannot begin the majority of our work until they are closed. Therefore, I believe that an extension of the current annual deadline by 45 days to April 15 of the following year would provide AA with a more reasonable timeframe within which to complete its audit procedures and be able to submit its draft audit report to the FCC for review.

I declare under penalty of perjury that the foregoing is true and correct. Executed
this 25 of July 2000.


Mark W. Fagan
